

CITY OF COLESBURG
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

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City of COLESBURG

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Sampson	Mayor	Jan 2014
Roger Waterman	Council Member	Jan 2014
Rex Meyer	Council Member	Jan 2014
Mitch Every	Council Member	Jan 2015
Loras Matt	Council Member	Jan 2015
Leo Roling	Council Member	Jan 2015
Tara Holub	Former Clerk/Treasurer	May 2013
Margaret Fensterman	Clerk/Treasurer	Indefinite
Timothy Schloss	Attorney	Indefinite

Independent Accountant's Examination Report

To the Honorable Mayor
and Members of City Council:

We have performed an examination of the City of Colesburg pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Colesburg for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2012 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt for revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.

10. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Colesburg, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Colesburg, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Colesburg and other parties to whom the City of Colesburg may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Colesburg during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Gosling Company, P.C.
Certified Public Accountants

March 22, 2014

Detailed Recommendations

City of Colesburg

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The City's depository resolution is dated January 5, 1981 and states a maximum deposit limit of \$100,000 with one financial institution of which the City has exceeded that limit.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City should either comply with the depository resolution in place or update it to comply with Chapter 12C.2 of the Code of Iowa.

- (C) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety and general government functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Colesburg

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (D) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for its bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (E) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts.

- (G) Monthly Treasurer's Report – The December 2012 Treasurer's Report manually created by the City Clerk does not agree with the balances maintained in the City's software. The Treasurer's report totaled \$35,065.70 more than the software total balances. Also, the Treasurer's report, when taking into account outstanding checks does not reconcile to the bank statement.

Recommendation – The City should establish procedures to ensure computer generated reports are accurate. The City should work with its software provider to determine the cause for the report errors and take immediate action to correct the reports.

- (H) Payment of Sewer Revenue Bonds – Principal and interest on the City's sewer revenue bonds are to be paid from net revenues that are set aside in a Sewer Revenue Bond Sinking Fund as described in the bond issue. This fund has not been created.

Recommendation – The City should transfer net revenues from the Enterprise, Sewer Fund to the Sewer Revenue Bond Sinking Fund for future principal and interest obligations. Payments on the bonds should be made from the Sewer Revenue Bond Sinking Fund as required.

City of Colesburg

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (I) Approval of hours worked – Payroll hours are not approved for the City Clerk, maintenance employee, or library employees before payroll checks are issued.

Recommendation – The City should put into place procedures to have proper authorizations of hours worked prior to issuing payroll checks.

- (J) Annual Financial Report – The excess revenues (under) expenditures on the financial report for fiscal year ended June 30, 2013 do not agree with the City's accounting software. While the clerk has generated reports by fund using the software and recorded those numbers onto the AFR, it is unclear whether these reports are complete.

Recommendation – The City should take immediate action to reconcile those reports by fund to a report in total to make sure all revenues and expenditures are properly reported on the annual financial report and to make sure it is a complete report.

- (K) Questionable Disbursements – As defined in the Attorney General's opinion dated April 25, 1979, we believe certain disbursements may not meet the requirements of public purpose since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Farmers Savings Bank	Chamber Bucks for past service as City Clerk, Tara Holub	\$ 50.00
Iowa Library Association	Supporting documentation only existed for \$15 education course	143.00
Wal-Mart	No supporting documentation attached to statement	7.60
Carol Walthart, Librarian	No supporting documentation for Scholastic and Amazon books	169.51
Carol Walthart, Librarian	No supporting documentation for Scholastic books	294.28
Carol Walthart, Librarian	No supporting documentation for laminating supplies, paper	33.64
Carol Walthart, Librarian	No supporting documentation for books	350.76

According to the opinion it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin. In addition, it is important to have proper supporting documentation for expenses such as invoices to support that public purpose.

City of Colesburg

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. The City should establish written policies and procedures for payment of expenses that include the requirements for proper documentation.

City of Colesburg

Staff

This examination was performed by:

Kathy S. Mersch, CPA, Manager
Stacy Vorwald, CPA, Staff Accountant

Ann O. Manson, CPA
Officer in Charge
Gosling & Company, P.C.